WILLIAM R. CLINE and SIDNEY WEINTRAUB
Editors NE

Economic Stabilization in Developing Countries

WILLIAM R. CLINE and SIDNEY WEINTRAUB
STANLEY W. BLACK
ANNE O. KRUEGER
CARLOS F. DIAZ-ALEJANDRO
MONTEK S. AHLUWALIA and FRANK J. LYSY
ALEJANDRO FOXLEY
IRVING S. FRIEDMAN
JAMES H. WEAVER and ARNE ANDERSON
STEPHEN E. GUISINGER
ROGER D. NORTON and SEUNG YOON RHEE
LANCE TAYLOR

THE BROOKINGS INSTITUTION Washington, D.C.

TECHNISCHE HOCHSCHULE DARMSTADT

Inv -Nr -

H6891

WIRTSCHAFTSPOLITIK
(VWL II)

Contents

1. Introduction and Overview

	William R. Cline and Sidney Weintraub The Economic Setting 1 The Policy Setting 4 Design of the Volume 8 Highlights of the Studies 8 Major Findings and Issues 31	
	The Impact of Changes in the World Economy on Stabilization Policies in the 1970s Stanley W. Black Sources of Macroeconomic Fluctuations 46 Global Economic Conditions and Domestic Economic Conditions 53 External and Internal Factors in Stabilization Problems 62 Policy Issues 71 Appendix A: Discriminant Analysis 73 Appendix B: Data 75 Comments by Sidney Dell 77	43
3.	Interactions between Inflation and Trade Regime Objectives in Stabilization Programs Anne O. Krueger The Price Level/Exchange Rate/Trade Regime Relationship 84 Interactions between Inflation and the Trade Regime 93 Stabilization Programs and Long-Term Development 100 Trade-Offs in Stabilization Programs 110 Implications for Donor Countries 113 Comments by Hollis B. Chenery 114 Discussion 116	83
4.	Southern Cone Stabilization Plans Carlos F. Diaz-Alejandro Historical Background and Initial Conditions 120 The Scorecard 124	119

1

X		Contents
	Some Additional Complications of the Late 1970s 128 Are These Hardships Really Necessary? 133 The International Framework 138 Comments by Ronald McKinnon 141 Discussion 146)
5.	Employment, Income Distribution, and Programs to Remedy Balance-of-Payments Difficulties Montek S. Ahluwalia and Frank J. Lysy A Summary of Received Theory 152 A One-Sector Model 156 A Five-Sector Model 175 Conclusions 186 Discussion 188	. 149
6.	Stabilization Policies and Their Effects on Employment and Income Distribution: A Latin American Perspective Alejandro Foxley Historical Perspective 192 The "New" Stabilization Policies of the 1970s 196 The Policies and Their Employment and Distributive Effects 198 Adjustment Processes for Economic Stabilization 205 Conclusions 221 Comments by Arnold C. Harberger 226 Comments by Albert Fishlow 229 Discussion 232	191
7.	The Role of Private Banks in Stabilization Programs Irving S. Friedman Growth of Private Bank Lending to Developing Countries 235 Relationships between Private Banks and the International Monetary Fund 243 Conclusions and Suggestions for Private Bank Participation in Stabilization Programs 250 Conclusions 254 Appendix: Case Studies 256 Comments by H. Robert Heller 265 Discussion 268	235
8.	Case Study of Economic Stabilization: Mexico Sidney Weintraub The Buildup to the Crisis 272 The Stabilization Period 284 Conclusions 291 Comments by Saúl Trejo Reyes 292 Discussion 295	271

ن. ش

Contents		xi
9.	Economic Stabilization in Peru, 1975–78 William R. Cline Origins of the Economic Crisis 298 Special Factors 301 The Stabilization Programs 305 Role of the Banks 309 Evaluation of the Stabilization Experience 310 Future Prospects 322 Lessons from the Peruvian Case 324 Comments by Daniel M: Schydlowsky 326 Discussion 332	297
10.	Stabilization and Development of the Tanzanian Economy in the 1970s James H. Weaver and Arne Anderson Background 335 The Crisis 338 The Government's Response 346 Critiques 354 Conclusions 367 Comments by G. K. Helleiner 369 Discussion 374	335
11.	Stabilization Policies in Pakistan: The 1970–77 Experience Stephen E. Guisinger Pakistan's Development, 1950–70 376 The Stabilization Problem 377 Sources of Destabilization 379 Fiscal Policy 387 Monetary Policy 393 Stabilization Policies: An Evaluation 398, Comments by Gustav F. Papanek 399	375
12.	A Macroeconometric Model of Inflation and Growth in South Korea Roger D. Norton and Seung Yoon Rhee The Equations of the Model 411 Sample Period Performance of the Model 425 Historical Experiments with the Model 438 Concluding Remarks 447 Appendix: Dynamic Simulation Results for Additional Variables 450 Comments by Larry E. Westphal 457 Discussion 462	407

	•	
xii	Co	ontents
13.	IS/LM in the Tropics: Diagrammatics	
	of the New Structuralist Macro Critique	465
	Lance Taylor	
	Economic Structure 466	
	Structure in Equation Form 469	
	Savings-Investment Balance: Keynesian and Fisherian Investment Demand, and Contractionary Devaluation Effects 475	
	The Market for Loans: Substitution and Wealth Effects in Interest Rate Response 481	
	Comparative Statics 484	
	A Complication: Inflationary Pressures from Nontraded Goods 490 Long-Term Trade-offs among Inflation, Income Distribution, and Growth 493	
	Monetarist Approaches 497	
	Possibilities for the Medium Term 501	
	Comments by Kemal Dervis 503	
	Discussion 506	
	Conference Participants	507
	Index	509
	Täbles	
1-1.	Consumer Price Inflation	2
2-1.	Shock to Real GNP in Industrialized Countries	49
	Deficit Finance in Non-Oil-Producing Developing Countries	52
	Cyclical and Secular Changes in Growth and Trade	54
	Balance of Payments of Non-Oil-Producing Developing	
	Countries	56
	Growth of Reserves, Money, and Prices	60
2-6.	Coefficient of Variation of Developing Country Export Volume	
2.7	and Unit Values	61 65
	Group Size and Missing Values Estimated Discriminant Functions	67
	Percentage of Observations Correctly Classified	69
	Contribution to Distance between Groups	70
	Characterization of Alternative Market Interactions	85
	Financial Programs as a Component of Stabilization Programs	
3-2.	Seventy-nine Countries, 1963–72	107
	The One-Sector Model	159
	Base Data, Malaysia, 1970	160
	Effects of a 10 Percent Devaluation	164
5-4.	Effects of Increased Export Demand or Reduced Investment Demand	170

1. 6